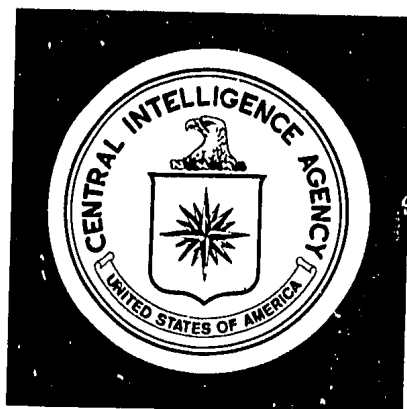


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DIRECTORATE OF
INTELLIGENCE

Intelligence Memorandum

Foreign Trade in Footwear: Trends and Prospects

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CENTRAL INTELLIGENCE AGENCY
Directorate of Intelligence
December 1972

INTELLIGENCE MEMORANDUM

FOREIGN TRADE IN FOOTWEAR:
TRENDS AND PROSPECTS

SUMMARY

1. Footwear has been one of the most dynamic components of world trade since the early 1960s.¹ Underlying the expansion were rising incomes, changing fashions, wide differences in various countries' production costs, and -- equally important -- the skill of US buyers and foreign manufacturers in capitalizing on these trends.

2. US imports of footwear, in particular, have been growing at a remarkable pace. At US \$678 million in 1971, these purchases were 11 times as large as a decade earlier. The United States now accounts for over two-fifths of footwear imports by the developed, high-wage countries that largely constitute the market. One out of every three pairs of shoes bought by US consumers presently is made abroad.

3. Unlike US firms, West European manufacturers have kept a good grip on their domestic markets for leather shoes. Their success in this regard reflects a stronger competitive position based on lower production costs. The West European market for synthetic footwear,² however, has undergone considerable penetration by Italian firms since the mid-1960s.

1. Throughout this memorandum, the term footwear is used for non-rubber footwear only. The term non-rubber footwear, as defined for US data purposes, refers to all footwear in which the upper is made of any material save rubber. In contrast, many foreign producers classify footwear as non-rubber on the basis of the primary material used throughout the shoe or, more commonly, by the material used in the sole. These vagaries in the classification of footwear as non-rubber lead to some discrepancies between US import data and foreign export statistics, but every effort has been made in this memorandum to make foreign footwear statistics conform with US tariff schedule definitions.

2. Throughout this memorandum, the terms synthetic and vinyl are used interchangeably.

Note: This memorandum was prepared by the Office of Economic Research.

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4. Although Italy has rapidly lost ground since the mid-1960s to Spain and Brazil, it is still the world's leading leather footwear exporter and the source of 42% of US imports. Japan met most of the growing demand for cheap vinyl footwear until 1967, when strong competition from Taiwan began to erode its position.

5. The rapid expansion of US footwear imports has resulted largely from the operations of large US producers of shoes who capitalized on lower foreign production costs and turned increasingly to the marketing of imported footwear. Such firms as Genesco, Sumitran, and Atlas have searched out low-cost manufacturers, specified styles, guaranteed large markets, and supplied some capital for the foreign plants' expansion through advance payments.

6. High and growing production costs in the US footwear industry portend further expansion in the share of the market satisfied by imports.

DISCUSSION

Introduction

7. This memorandum discusses the importance of the US market in the world footwear trade and the changing positions of the supplying countries. It also analyzes the various factors underlying recent changes in world footwear exports and the economic importance of footwear exports to the major suppliers. Production and export trends in the five principal supplying countries are examined in the Appendixes.

The US Market for Shoes

8. The United States is by far the most important market in the world footwear trade. It accounts for more than 40% of the value of footwear imports by members of the Organization for Economic Cooperation and Development (OECD). The next largest OECD markets -- West Germany, the United Kingdom, and France -- together account for only 30% of footwear imports. Demand for all types of imported medium-priced footwear in the United States has outdistanced that in Western Europe since the mid-1960s. In particular, demand for imported leather shoes has risen more rapidly in the United States than in Western Europe, where production increased substantially. Demand for imported vinyl products was strong in both markets, since neither the United States nor Western Europe developed sufficiently large or competitive domestic industries in vinyl footwear.

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9. During the 1960s the middle-income footwear market in the United States expanded especially rapidly, but domestic producers failed to anticipate the important role fashion was to play in this market. They encountered growing competition in price, style, and quality from foreign producers favored by inexpensive labor or a local source of raw materials. Thus, US wholesale buyers began to draw on the low-cost leather shoe industries of southern Europe and turned to the Far East for inexpensive vinyl shoes. Traditionally limited to small quantities of high-priced items, footwear imports expanded tenfold in value between 1961 and 1971 -- to \$678 million -- and now consist largely of stylish, medium-priced leather shoes.

10. During the Kennedy Round of tariff negotiations within the General Agreement on Tariffs and Trade, the United States agreed to a reduction in its tariff rates on footwear, a move that fostered continued import growth by tempering suppliers' price increases. Not implemented until 1 January 1968, however, these tariff reductions occurred well after the major acceleration in US footwear imports. In addition, the reductions were generally small and were staged in such a way that the annual decreases in the ad valorem duties for the bulk of footwear imports totaled no more than two percentage points a year. In 1971 the reduction was equivalent to only an approximate \$0.05 drop in the tariff collected on the average f.o.b. value of a pair of imported shoes. The final tariff reduction took place on 1 January 1972, reducing the rate for most men's leather shoes from 9.5% to 8.5%, for the bulk of women's leather shoes from 18% to 15%, and for all vinyl shoes from 11% to 6%. Although import volume grew 15.5% annually in 1968-71 compared with 24% a year in 1961-67 prior to the cuts, the growth rate might have been slightly lower without the tariff cuts.

11. Imports have become an increasingly important share of US footwear consumption. During 1962-71, the value of US footwear consumption rose by 4.7% annually, almost twice the rate of domestic production. The value of shoe imports rose 27% a year on the average, and foreign footwear increased from 3% to 19% of US consumption (see Figure 1). This trend has accelerated in recent years, moreover, with the growth of import value averaging 35% since 1966. Since imported footwear is generally substantially less expensive than the domestic product, imports account for an even greater share of US consumption in terms of volume. At present, one out of every three pairs of shoes purchased in the United States is manufactured abroad.

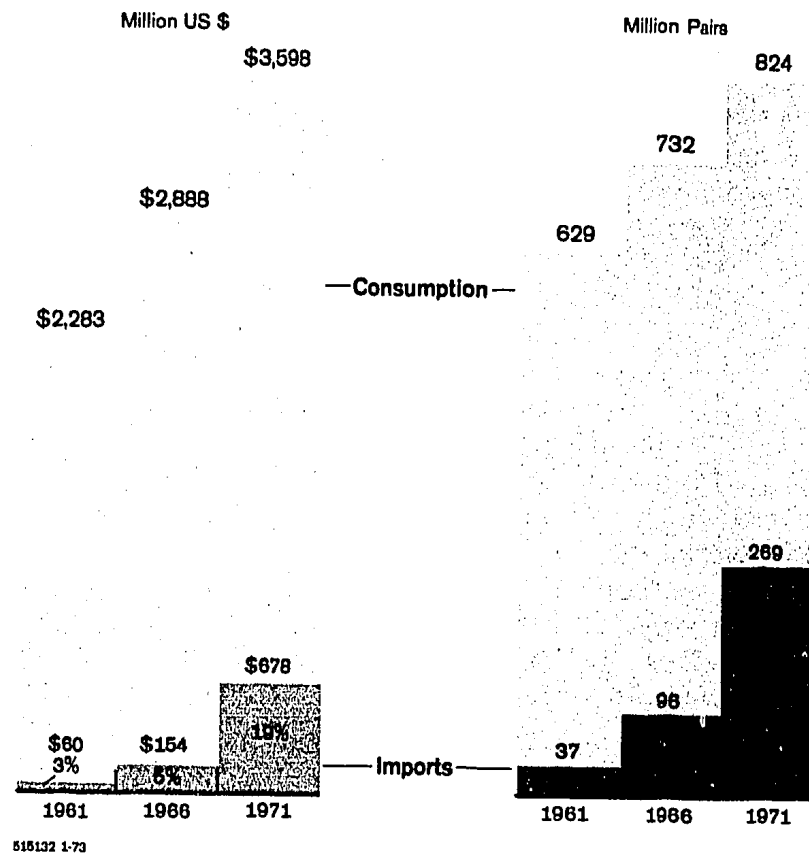
12. The style-conscious women's shoe market has provided much of the impetus to import growth since the early 1960s (see Table 1). By 1971, women's shoes accounted for 58% of the value of footwear imports,

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Figure 1

The Growing Importance of Imports in US Consumption of Footwear



compared with only 38% a decade earlier. While the style revolution in men's attire over the past few years has begun to stimulate growth in shoe imports, men's and boys' footwear accounts for only about one-third of total import value. Slippers, children's footwear, and miscellaneous footwear such as Mexican huaraches, now account for about 10% of import value -- less than one-half of the 1961 share. The drop in the relative importance of these inexpensive imports explains a large part of the 56% increase in the average f.o.b. value of a pair of imported shoes in the decade.

13. Since the mid-1960s, leather and vinyl shoes have each accounted for almost one-half of shoe import volume. At the same time, the value of leather footwear imports has declined from 85% of the total to only about 75% of the total. Many foreign manufacturers gradually have shifted

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CONFIDENTIAL**Table 1****United States: Composition of Footwear Imports**

	<i>1961</i>	<i>1971</i>
	<i>Million US \$</i>	
Total	60	678
Women's and misses'	23	396
Men's and boys'	24	221
Children's and miscellaneous	13	61
	<i>Million Pairs</i>	
Total	37	269
Women's and misses'	10	168
Men's and boys'	5	69
Children's and miscellaneous	22	32
	<i>Average Value (US \$ Per Pair)</i>	
Total	1.62	2.52
Women's and misses'	2.30	2.36
Men's and boys'	4.80	3.20
Children's and miscellaneous	0.59	1.91

into greater production and export of medium-priced vinyl shoes. Growing use of vinyl in such items as high-fashion boots accounts for much of the growth in the value of synthetic footwear imports.

Changing Positions of Exporting Countries

14. Growing US demand has fostered a proliferation of footwear exporting countries since the mid-1960s. A decade ago, Italy held undisputed title as the world's leading shoe exporter and provided one-half of US footwear imports. Low prices, high-quality workmanship, and Italy's position as one of Europe's two major fashion centers had brought rapidly increasing sales of Italian shoes abroad. By the mid-1960s, however, consumer preferences had changed, and the United States was less willing

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to accept either Italian style dictates or the rising prices. Large US buyers such as Genesco, Sumitran, and Atlas began providing the leather footwear industries of less developed countries with designs and molds for export production. Although Italy remains the leading shoe supplier, Spain and, more recently, Brazil have begun to invade its markets, and the Italian share of US footwear import value has fallen (see Figure 2). Similarly Japan, which has traditionally dominated the world market for low-priced vinyl footwear, recently lost some of its markets to Taiwan. Indeed, Taiwan replaced Japan in 1971 as the leading US source of vinyl footwear in terms of volume, although not in value. Among shoe exporters, only France, whose sales depend little on the US market, has retained its traditional role, continuing to supply high-priced, prestigious shoes to a well-diversified international clientele. Its share of the US market -- like that of small international exporters of both high-priced and very inexpensive footwear -- has declined somewhat because the growth of demand has been in the medium-priced shoe market.

Cost Factors and the Changing Export Scene

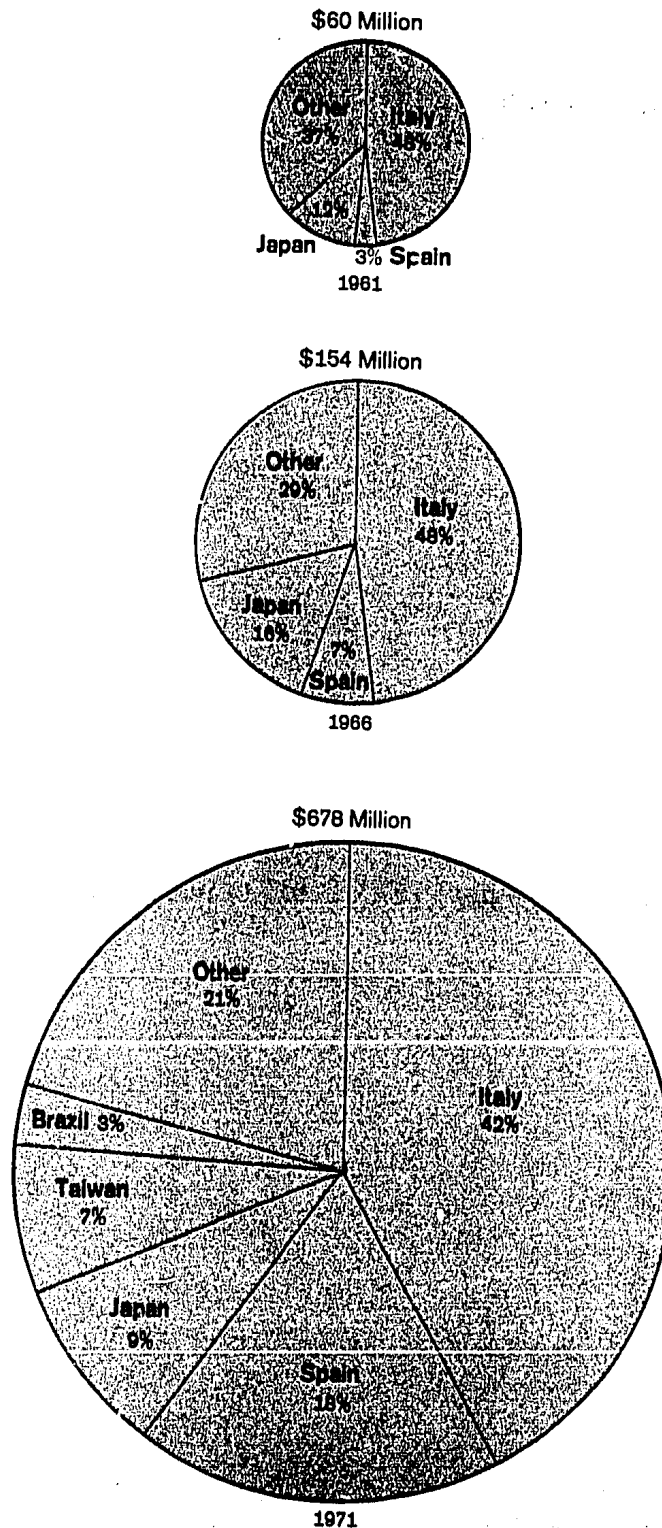
15. Just as spiraling wages once opened the door to low-cost foreign competition in the United States, so have they recently undermined Italian and Japanese dominance of exports of leather and vinyl footwear, respectively. The labor-intensive nature of the shoe industry makes it highly vulnerable to rising wage costs; at least one-third of production costs in most shoe industries consist of labor charges (largely wages). Soaring wages in Italy since 1969 have boosted labor costs considerably in the footwear industry (see Figure 3), forcing manufacturers to increase prices and trim profits. Italian producers are finding it particularly difficult to compete with lower cost producers such as Spain in the cheaper "bread and butter" lines such as women's summer sandals. Recent wage increases in Spain, however, threaten its ability to compete with low-cost producers elsewhere. Similarly, Japan's position has been eroded by the low wage scales in other Far Eastern countries, most notably Taiwan.

16. The growing shortage of unprocessed hides on the world market has led to spiraling leather costs in recent years and has added to cost pressures. The supply of hides, as a by-product of the meat-packing industry, is relatively inelastic and independent of the demand for leather footwear. Hide supplies have simply not kept up with rapidly increasing footwear demand over the past few years. Compounding the problem for hide-importing countries such as Italy and Spain is the growing tendency of traditional hide exporters to restrict sales. Once accounting for more than one-fourth of total world hides exports, Argentina and Brazil have recently embargoed exports of crude and semi-finished hides to foster their own tannery and footwear industries. These embargoes boost costs in the

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Changing Origins of US Imports of Footwear* Figure 2



*United States data were used and may differ from data presented in country tables.

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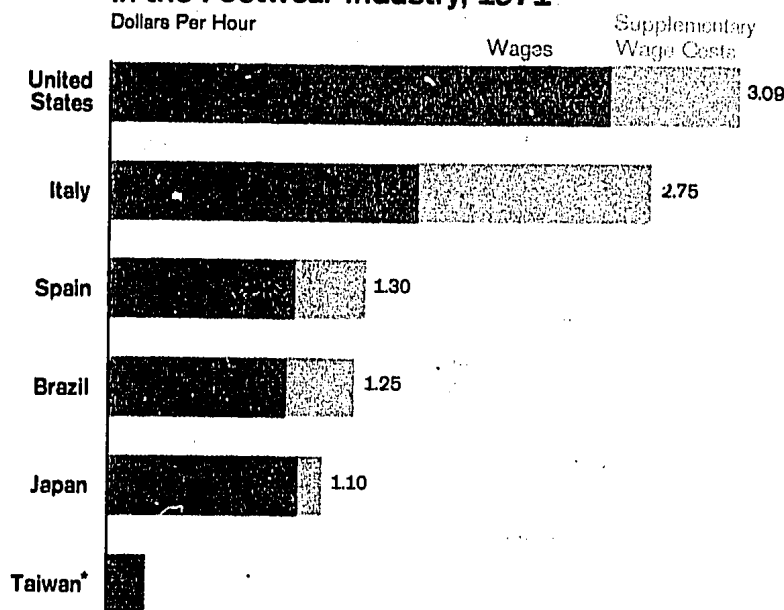
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Figure 3

Comparative Labor Costs in the Footwear Industry, 1971

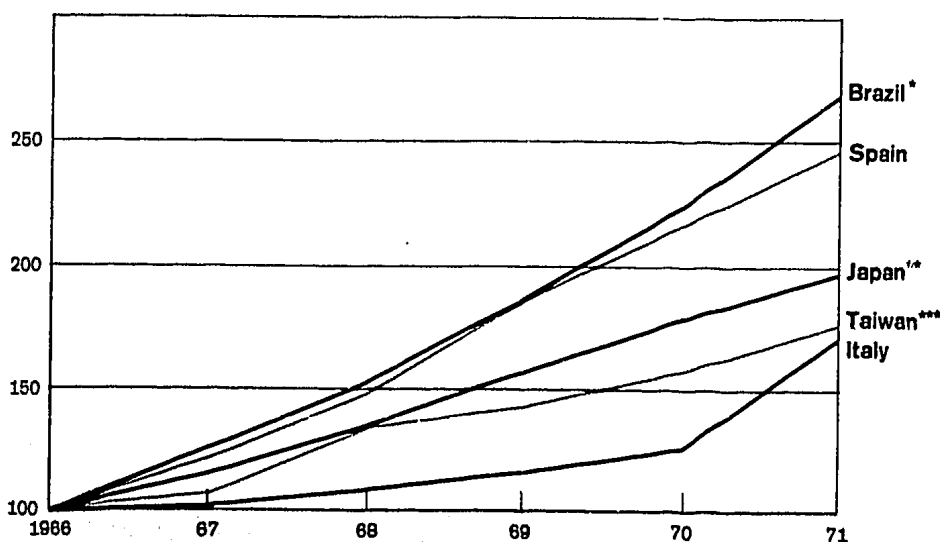
Dollars Per Hour



*Total labor costs are unavailable

The Growth of Wages in Selected Footwear Industries

1966=100



*Minimum contractual wages in manufacturing in the major shoe-producing area of São Paulo.

**Leather and fur products industries.

***Leather industry (1969 and 1971 data are estimates of this Office).

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Spanish and Italian shoe industries because import duties are higher on finished leather than on untreated hides. With its ample hide supplies as well as moderate labor costs, Brazil is now more able than most countries to offer all-leather shoes at low prices.

17. The tight raw-hide market increasingly is forcing footwear producers to use more synthetics. In addition to their cost advantage, vinyl and other manmade plastics are more readily adaptable to mass production techniques than leather, which must be hand-cut. With synthetics, the shoemaking process is less labor-intensive and involves less raw material waste. By the mid-1960s, Italy and (to a lesser extent) Spain had already begun to use vinyl in making soles and linings; more recently, it has been widely used for uppers. Insignificant in 1966, exports of vinyl and plastic shoes have increased in value to 15% and 5% of the footwear exports of Italy and Spain, respectively (see Table 2). Japan and Taiwan established export-oriented footwear industries almost as an adjunct to their plastics industries. Far Eastern producers, however, have concentrated their efforts in the low-priced market, which is not in direct competition with leather or the medium-priced vinyl footwear increasingly exported by southern Europe.

Table 2

Percentage Distribution of Footwear Exports^a
by Material Composition

	<i>Total</i>	<i>Leather</i>	<i>Synthetic</i>	<i>Other</i>
Italy				
1971	100	82	15	3
1966	100	92	1	7
Spain				
1971	100	88	5	6
1966	100	82	Negl.	18
Brazil				
1971 ^b	100	98	Negl.	2
1966	100	96	Negl.	4
Japan				
1971	100	8	75	18
1966	100	9	55	36
Taiwan				
1971	100	2	98	1
1966	100	Negl.	100	Negl.

a. Based on the value of exports. Because of rounding, components may not add to the totals shown.

b. 1970 data.

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18. Widespread industrial inefficiency has contributed to increasing production costs in most footwear industries, although there has been some tendency toward consolidation in a few countries. During the 1950s, Italy's cottage industry was efficiently modernized with beneficial effects on productivity and costs. Boom conditions in the early 1960s, however, encouraged a proliferation of small operations, often low on managerial skills, rather than consolidation and merger of existing firms. Only recently has there been some movement toward larger production units. In the Spanish industry, on the other hand, there has been some consolidation among the numerous mechanized firms, although the industry remains generally fragmented and small-scale. In both countries there is almost no vertical integration. Although new in the shoe export business, Brazil's industry has existed for some time and the firms are characteristically small. Only the larger firms now have the capacity to fill the average export order, although some consolidation of smaller firms is under way in response to profits to be made in the export trade. The greater adaptability of synthetics to mass production has helped to hold down production costs in the Japanese and Taiwanese footwear industries.

19. In most exporting countries, middlemen play little or no role in foreign footwear marketing. In Italy, for example, most manufacturers deal directly with US retailers or US footwear manufacturers buying wholesale. An industry-wide organization does, as in Spain, sponsor semiannual shoe fairs to promote exports. In Taiwan as well as Japan, however, large Japanese trading companies act as intermediaries between shoe manufacturers and foreign buyers. US buyers seldom deal directly with the manufacturer, whose entire output may be spoken for by a trading company, even when it is the buyer who is specifying style runs.

20. Because of shifts in both supply sources and the type of footwear purchased, the average unit value of US imports has not risen as rapidly as the exporters' production costs. Increases in the average value were moderated during 1962-71, for instance, by the shift from Italian shoes (whose average f.o.b. value rose 38%) to Spanish shoes (up only 21%). The difference in the figures reflects not only faster gains in unit costs and prices in Italy than in Spain but also the increasing share of women's leather shoes (which are less expensive than men's shoes) in Spain's sales. Italy, finding itself being outpriced by Spain, started selling relatively more vinyl footwear products to the United States, a factor which also moderated the rise in average value. The average value of US footwear imports from both Japan and Taiwan has more than doubled since 1966. Although the average for Taiwan has risen most rapidly, it is still at \$0.77, less than two-thirds that for Japanese footwear.

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Adaptability Versus Style Leadership

21. The growing unwillingness of US and other consumers to allow any single source to dictate fashion has contributed to the changing composition of the world footwear trade. Style preferences recently have become much more varied and less influenced by established industry names. While Italy -- hard pressed to compete in price during the 1960s -- began to rely heavily on its industry's traditional style leadership to expand exports, large US shoe importers increasingly have been taking Italian or their own designs to be copied by lower cost producers. Brazil's and Spain's shoe industries have been particularly responsive, quickly adapting their production to US styles and specifications. Japan and Taiwan, for the most part, are not in the fashion competition, having limited themselves to copying styles or filling requests.

Export Dependency of the Footwear Industry

22. All the major exporters of low- and medium-priced footwear depend heavily on the US market. This dependency increased rapidly in the 1960s, as growth in other Western markets for shoes slowed. The US market now absorbs from 38% to almost 90% of the footwear exports of the leading suppliers (see Figure 4). About one-fourth of Italian and Spanish footwear production, one-tenth of Brazilian production, and a goodly share of Japanese and Taiwanese footwear output are now exported to the United States.

23. Although the United States is the world's leading footwear importer, its shoe purchases account for no more than 4% of the global exports of any major supplier. Nevertheless, footwear exports are very important in several countries' trade balances with the United States. Of total Italian and Spanish exports to the United States, almost one-fifth and one-third, respectively, consist of shoes. Shoes are a growing but still minor share of Brazilian exports to the United States. Footwear exports remain a very small share of Japanese and Taiwanese sales to the United States.

24. Footwear exports have considerable regional importance within Italy, Spain, and Brazil even though the industry accounts for relatively small shares of gross national product and total employment. In Tuscany and the Marches in Italy and Alicante Province in Spain, the shoe industry is a major employer. Whole villages depend on shoe production for their livelihood.

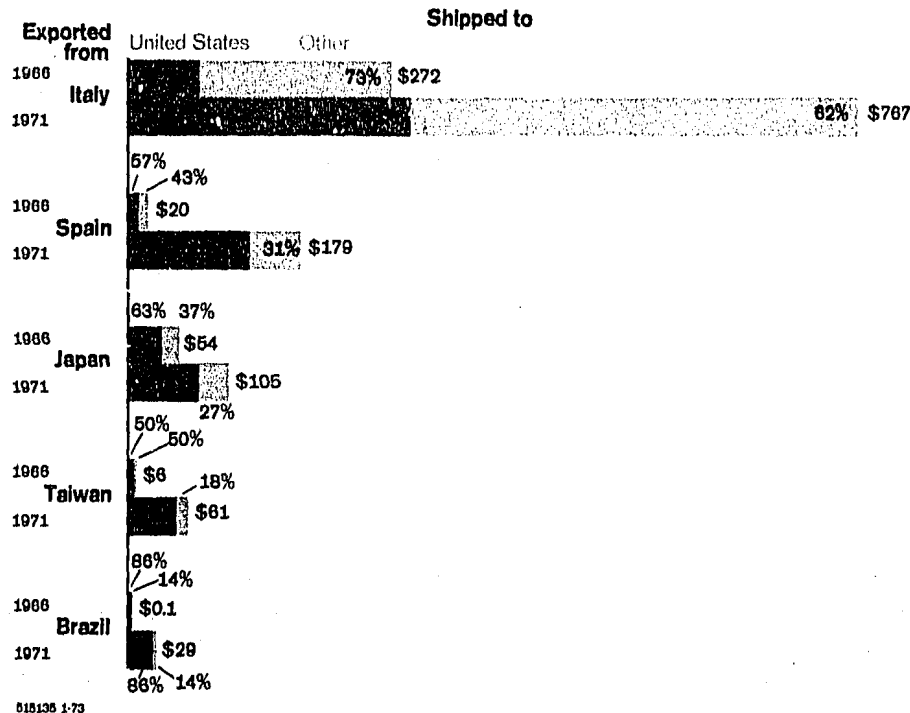
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Figure 4

Growth of Footwear Shipments to the US by Major Exporters

Million US \$



Prospects for the Footwear Trade

25. The United States will for some years remain the leading market for most major shoe exporters. With a high and rising wage scale, the US shoe industry is unlikely to become competitive with imports in supplying the mass market. Thus, imports are likely to continue growing as a share of US footwear consumption over the next few years. While West European countries generally managed to meet most of their requirements from domestic production in the 1960s, the import share of the West European market for leather footwear may increase somewhat. As European wages continue to rise, most West European countries will face growing competition from lower cost leather shoe producers as well as increasing domestic demand for middle-priced leather goods.

26. While style and quality remain the basis of competition in the high-priced, hand-crafted footwear market, price dominates the expanding,

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middle-income market. Thus the major ingredient for export success in leather footwear today -- as it has been for vinyl footwear traditionally -- is the availability of highly-skilled, low-cost labor. A relatively inexpensive domestic source of leather is also becoming increasingly important. Style leadership, on the other hand, confers no marked advantage in today's relaxed fashion scene.

27. With growing price competition abroad, US shoe imports probably will become more diversified geographically. Domination by Italy and Japan of leather and vinyl footwear exports, respectively, will decline further. Rapidly rising labor and raw material costs will continue to impair Italy's competitiveness with such producers as Spain and Brazil. New exporters with advantages in raw material supplies or labor costs, such as Argentina, Greece, Yugoslavia, and India, will further erode Italy's position. Similarly, Japan -- already challenged by Taiwan as a vinyl footwear exporter -- will face new competition from low-wage producers such as South Korea.

28. While consumers will continue to favor leather over vinyl footwear, soaring leather prices will force greater use of synthetics. Demand for leather footwear is likely to continue outpacing leather supplies, which are tied to world demand for meat. Restrictions on hide exports will tend further to boost leather prices. Synthetics already are used frequently to manufacture shoe components -- for example, soles and linings in Italy. Moreover, West European demand for medium-priced vinyl footwear has increased rapidly -- in contrast to the stagnant demand for imported leather shoes -- and has encouraged new production lines in plastics in Italy and Spain.

29. Far Eastern vinyl footwear producers such as Taiwan and South Korea will probably concentrate on the low-priced synthetic shoe market over the next few years. Eventually, these producers will probably move into the medium-priced vinyl market, increasing the competition in it. Success in this market will require careful marketing and advertising to improve their product-quality image.

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CONFIDENTIAL**APPENDIX A****ITALY'S FOOTWEAR INDUSTRY**

Stressing leadership in quality and style, Italy transformed its shoe industry after World War II from a domestically oriented cottage industry into a competitive export industry. By 1960, domestic shoe consumption was relatively stagnant and production growth stemmed largely from expanding markets in the United States and West Germany -- primarily for women's leather shoes. Many manufacturers produced solely for export, small firms frequently selling their entire output to a single customer. During the 1960s, export volume grew from approximately 36% of production to 65%, while the value of shoe exports increased more than fourfold, to \$566 million. By the end of the decade, shoes were Italy's third largest export in terms of value, and Italy's footwear industry was second only to the United States in production and second to none in exports.

The industry's minor miracle ended abruptly in 1970-71. Italy's worst post-war recession weakened shoe demand, while soaring Italian production costs and economic slowdowns abroad reduced average annual growth of export volume from 25% in the 1960s to 9.6% in 1970-71. In sharp contrast to the 16% annual growth rate of the 1960s, shoe output increased only 3.3% in 1970 and 6.5% in 1971 (reaching 330 million pairs -- see Table 3), unused plant capacity rose, and many firms worked partial shifts.

Higher prices stemming from rapidly rising labor costs are the main reason for the shoe industry's recent sluggish growth. During 1967-71, labor costs (about one-third of total costs) increased by about 68%, to \$2.50-\$3.00 per pair of shoes -- roughly double the costs in Spain. Large wage increases granted in the "hot autumn" of 1969 are mainly responsible for the recent labor cost gains. Growing worker absenteeism since mid-1970 -- 10% or more of large firms' employees typically are on sick leave -- has also boosted costs. Employers must grant sick leave on presentation of a doctor's certificate (easily obtained from union physicians) and, because of a lack of authorized state doctors, are effectively barred from checking on their employees.

The worldwide shortage of leather and hide has aggravated the cost problem. Leather shoes (constituting four out of every five pairs made) are the foundation of Italy's high-quality production. Between July 1971 and July 1972, prices rose about 30%-35% for ovine leather, 20%-30% for bovine leather, and 50%-60% for sole leather.

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Table 3

Italy: Footwear Production and Exports

	<i>Million Pairs</i>					
	1966	1967	1968	1969	1970	1971
Production^a	200.0	230.0	270.0	300.0	310.0	330.0
Exports	99.5	124.8	164.9	193.6	213.6	232.4
United States	30.0	43.5	57.8	64.1	85.2	80.1
West Germany	28.0	30.1	42.9	50.7	49.9	61.4
France	4.6	7.3	8.3	17.0	12.9	16.2
Belgium-Luxembourg	3.5	4.3	4.2	3.7	5.8	8.3
United Kingdom	3.3	3.7	1.3	0.4	2.3	4.2
Other	30.1	35.9	50.4	57.7	57.5	62.2
Of which:						
Leather footwear	86.1	104.5	130.8	150.5	160.5	161.7
United States	30.0	41.3	52.6	59.7	77.7	70.4
West Germany	23.5	24.0	32.3	37.8	35.8	42.4
France	3.0	5.1	5.3	8.7	5.5	5.4
Belgium-Luxembourg	2.7	3.0	2.4	1.3	1.5	1.4
United Kingdom	3.0	2.9	4.4	....	....	....
Other	23.9	28.2	33.8	43.0	40.0	42.1
Synthetic footwear	2.3	7.3	18.3	29.7	41.0	60.1
United States	....	1.4	4.0	3.8	6.1	9.0
West Germany	0.4	1.8	5.7	9.2	11.2	16.9
France	....	0.5	1.4	4.6	5.3	7.8
Belgium-Luxembourg	....	0.3	0.8	1.7	4.0	5.3
United Kingdom	....	0.1	0.2	....	2.2	4.0
Other	1.9	3.2	6.2	10.4	12.2	17.1

a. Estimated.

Widespread organizational inefficiency and lack of capital hamper productivity growth in the shoe industry. The boom of the 1960s fostered the growth of numerous small operations with weak management and outmoded facilities. In 1969, some 1,200 firms owned an estimated 6,000-10,000 shoemaking establishments - mostly (1) family-owned enterprises with fewer than 40 workers and (2) artisan operations with one to 10 persons concentrating largely on products for domestic sales. No more than one-third of the establishments are modern industrial facilities. There is almost no vertical integration in the industry. Few firms are incorporated, and none are listed on the Milan stock exchange. Foreign investment is negligible.

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Because producers have been unable to achieve large productivity gains, growing wage and raw material costs raised the average f.o.b. price of Italian shoes by 20% during 1967-71 - from \$2.70 to \$3.30 per pair. This gain meant that the average US retail price increased from about \$9.00 to \$11.00. Moreover, major Italian shoe manufacturers announced a further 20% increase in their prices in August 1972, probably anticipating that the next wage settlement will raise production costs.

As its ability to compete in price has declined, Italy has had to rely more on style leadership to retain its foreign markets. Italian footwear sales depend heavily on the fashion-oriented women's shoe market, particularly the summer sandal selling for \$6 to \$20. Such shoes are more a fashion accessory than a clothing necessity and are particularly subject to style vagaries. The unprecedented changes of recent years have severely strained Italy's ability to maintain style leadership. To aggravate matters, shoe importers are increasingly having Italian designs copied by producers with lower costs.

Direct restraints have played little part in slowing Italian shoe exports. In mid-1970, Italian authorities instituted a monitoring system on shoe exports to the United States. Exporters had to obtain "visas" from their local chambers of commerce; the visa, however, was a mere formality: no real effort was made to curtail export growth. Canada restricted imports of Italian shoes in November 1972, but the impact on Italy will be slight because its sales to Canada are very small.

Increasing difficulties in exporting leather shoes have recently stimulated the use of synthetic materials which are more readily adaptable to mass production techniques than leather. Because they cost less, synthetic shoes have been able to catch more of the budget market and thus have been less vulnerable to style changes. Italy's average export price for a vinyl shoe is only \$1.90 a pair, compared with \$3.90 for leather; the corresponding US retail prices are about \$6.00 and \$13.00, respectively. Stylish Italian synthetics have even broken into the medium-priced market - particularly for women's sandals and stretch boots. Thus exports of synthetic shoes have rapidly accelerated since 1966 (see Table 4) and now account for 15% of shoe export value and 26% of quantity.

Growth of exports to West European countries has slowed since 1966 because of competition from Spanish and Brazilian producers and increased domestic output of high-quality leather shoes, especially in the United Kingdom and France. Exports of vinyl shoes to Western Europe, although still small, have been rising and, in 1970-71, revived Italy's fast disappearing sales to the United Kingdom and Belgium.

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Table 4
Geographic Distribution of Italian Footwear Exports^a

	1966		1967		1968	1969	1970	1971	
	Million US \$	Per- cent	Million US \$	Million US \$	Million US \$	Million US \$	Million US \$	Million US \$	Per- cent
Total	272.5	100.0	338.2	448.8	565.8	660.4	766.8	100.0	
United States	73.1	26.8	105.4	157.6	209.5	275.8	290.4	37.9	
West Germany	76.2	28.0	80.4	106.0	132.6	148.0	194.5	25.4	
France	16.3	6.0	23.9	25.9	49.3	37.4	42.8	5.6	
Belgium-Luxembourg	8.1	3.0	9.7	7.8	6.5	11.3	17.5	2.3	
United Kingdom	10.9	4.0	12.2	2.5	0.8	4.7	9.6	1.3	
Other	87.9	32.3	106.6	149.0	167.1	183.2	212.0	27.6	
Of which:									
Leather footwear	251.3	100.0	308.2	401.8	508.4	575.0	631.8	100.0	
United States	71.2	28.3	102.6	149.4	197.8	259.4	261.7	41.4	
West Germany	68.7	27.3	70.9	92.8	117.5	127.4	159.7	25.3	
France	13.7	5.5	21.1	21.6	40.6	29.2	30.6	4.8	
Belgium-Luxembourg	6.6	2.6	7.7	5.6	3.3	4.0	4.6	0.7	
United Kingdom	10.4	4.1	10.7	1.2	....	....	....	....
Other	80.7	32.1	95.2	131.2	149.2	155.0	175.2	27.7	
Synthetic footwear	2.2	100.0	7.6	18.4	31.1	59.7	111.2	100.0	
United States	....	....	1.3	5.3	5.1	12.7	25.7	23.1	
West Germany	0.6	27.2	2.2	5.4	9.5	15.4	30.2	27.2	
France	....	....	0.3	1.4	3.4	4.9	7.4	6.7	
Belgium-Luxembourg	0.1	4.5	0.4	0.6	1.8	1.9	11.1	10.0	
United Kingdom	....	....	0.3	0.3	....	4.4	8.9	8.1	
Other	1.5	68.2	3.1	5.4	11.3	16.4	27.9	25.1	

a. Because of rounding, components may not add to the totals shown.

Italy's dependence on the US shoe market has increased as it lost ground in Western Europe. The United States now takes close to 38% of the value of Italian shoe exports, compared with 27% in 1966. Most US imports consist of medium-priced women's leather shoes, the mainstay of the Italian industry. But even in the US market, Italy is facing increasingly strong competition - mainly from Spain and Brazil. The American market also has been turning more toward Spanish companies for high-quality men's shoes. Increasing competition and stagnant consumer demand brought a decline in the quantity of US imports from Italy in 1971. The revaluation of the lira relative to the dollar did little to curb exports because most contracts for fall and winter deliveries had already been signed. Moreover, since most contracts were negotiated in dollars, Italian manufacturers had to absorb the foreign exchange losses.

The Italian government has not aided the footwear industry as it has other troubled industries such as textiles. Like all exporters, footwear manufacturers receive a rebate on their foreign sales of the general sales

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tax on production, amounting to 4.5% for shoes. With the introduction of the value-added tax (VAT) on 1 January 1973, tax exemptions for exports will be maintained.

Italy's shoe production is concentrated in a few central-northern regions. It is particularly important in Tuscany - Florence being the center of the footwear industry - and in the Marches, where many villages depend heavily on footwear production. Lombardy and Veneto also are important shoe producing areas. The Italian footwear industry employs about 130,000 persons - about 1.5% of the industrial labor force. Recent unemployment increases have attracted the interest of labor unions and leftist political groups. Political sensitivity to this problem is heightened by the industry's importance in regions where the Communist party is very influential.

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APPENDIX B

SPAIN'S FOOTWEAR INDUSTRY

Since 1966 the Spanish footwear industry has received considerable impetus from exports, particularly to the United States. Output has risen an average of 18% a year, stimulated by an eightfold rise in export sales. Exports now absorb about 40% of shoe output (see Table 5), compared with 5% a decade ago. The United States alone takes more than one-fourth of production. Shoes are Spain's leading foreign exchange earner among merchandise exports and are a major source of employment in four of Spain's 50 provinces.

Men's leather shoes traditionally predominated in output and exports. The industry's recent growth, however, has been led by foreign sales of women's leather shoes, which now approximate one-half of leather footwear exports. Vinyl shoe output also has risen rapidly since the mid-1960s; it now accounts for 40% of production destined for domestic consumption but contributes only 5% of shoe export earnings.

Spain's shoe industry has benefited from the availability of skilled, disciplined workers who have made only modest wage demands. Wage rates and social security costs have been far below those in Western Europe and the United States. While wage increases have accelerated in recent years, labor costs in the Spanish shoe industry now amount to only about \$1.30 per hour, or approximately one-half those in Italy.

Costs, however, have been under pressure in recent years because of rising prices for hides, which make up more than one-half of production costs. Spain imports about half the hides used in shoe production. Traditionally, it has imported raw hides. Supply sources such as Brazil and Argentina, however, have recently restricted raw hide exports. These restrictions and Spain's high import duties on processed hides have boosted production costs. Tanners and footwear manufacturers have petitioned the Ministry of Commerce to remove tariff barriers on tanned leather to ease the pressure.

Increased consolidation of firms and greater use of machinery have helped to raise labor productivity substantially and to hold down selling prices. Division-of-labor is now applied by firms, both large and small, which account for almost all shoe output. Individually handcrafted shoes account for only 1% of output. Mechanization has been aided by the customary practice of having a foreign buyer make advance payment on orders,

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providing funds for equipment purchases. Because some foreign buyers have long-term contracts and absorb the full output of some plants, many Spanish firms are essentially subsidiaries of US companies.

Favorable labor costs trends and the peseta's 14% devaluation in 1967 have helped to restrain the price of Spanish shoe exports. The average f.o.b. price of US imports from Spain rose only 35% from 1966 to 1971, compared with 55% for imports from Italy. The average cost of Spanish shoes in 1971 - \$4.01 per pair - nevertheless was slightly higher than the average for Italian shoes because men's leather shoes bulk much larger in US imports from Spain.

The willingness of Spanish producers to allow buyers to dictate style and size requirements has been a major selling point. Ability to make cheap copies of top-flight Italian and French footwear for women has helped exports greatly. Sales of stylish women's boots, for instance, have accounted for much of the growth in vinyl exports.

The United States is Spain's most important footwear customer by far. It now takes more than two-thirds of Spain's shoe exports, and these purchases constitute about one-fourth of US imports from Spain. Virtually all Spanish footwear sold in the US market is made of leather. The other leading importers of Spanish footwear are West Germany, Canada, and the United Kingdom (see Tables 5 and 6). The importance of these markets has dwindled since the mid-1960s. The United Kingdom, for example, now takes only 4% of the value of Spanish shoe exports, compared with 9% in 1966.

Heavy reliance on the US market has inspired Spanish shoe producers to set up a Center for Commercial Information to help diversify the export market. Footwear manufacturers have also established the Instituto Espanol de Industrias del Calzado y Conexas (INESCOOP) to coordinate the industry's growth and foster exports. INESCOOP has already established teams to work on quality and fashion guidelines. The government apparently has made no special efforts to aid the industry.

The shoe industry accounts for about 1.5% of industrial employment and is of prime importance in several Spanish provinces. Some 43% of employment in the shoe industry is centered in Alicante province, on the Costa de Blanca. The town of Elda in this province has some 400 shoe factories, which employ almost every able-bodied adult. Other important shoe producing provinces are the Balearic Islands, Zaragoza, and Castellon, which account for another one-third of employment in the industry.

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Table 5

Spain: Footwear Production and Exports^a

	1966		1967		1968	1969	1970	1971	
	Thousand US \$	Per- cent	Thousand US \$	Thousand US \$	Thousand US \$	Thousand US \$	Thousand US \$	Thousand US \$	Per- cent
Production	187,989		218,810	245,229	300,148	332,100 ^b	425,000 ^b		
Exports	19,721	100.0	36,959	67,081	100,233	108,637	178,645	100.0	
United States	11,215	56.9	24,506	48,965	71,154	77,826	123,718	69.3	
West Germany	2,420	12.3	2,107	2,477	4,452	5,503	14,236	8.0	
Canada	1,138	5.8	2,198	3,834	5,839	5,738	8,461	4.7	
United Kingdom	1,761	8.9	2,127	3,431	4,412	4,954	7,364	4.1	
Other	3,187	16.2	6,021	8,374	14,376	14,616	24,866	13.9	
Of which:									
Leather footwear	16,074	100.0	32,333	60,764	90,608	98,050	157,701	100.0	
United States	10,782	67.1	23,459	47,462	69,414	75,103	115,059	73.0	
West Germany	599	3.7	588	594	1,540	2,633	10,062	6.4	
Canada	1,108	6.9	1,986	3,541	5,689	5,582	8,177	5.2	
United Kingdom	1,127	7.0	1,701	2,761	3,743	4,427	6,391	4.1	
Other	2,458	15.3	4,599	6,406	10,222	10,305	18,012	11.4	
Synthetic footwear	78	100.0	151	507	1,160	2,616	9,803	100.0	
United States	43	55.1	18	402	781	1,941	7,034	71.8	
West Germany	6	7.7	8	18	2	37	1,012	10.3	
Canada	5	6.4	Negl.	Negl.	16	26	166	1.7	
United Kingdom	5	6.4	11	24	88	192	572	5.8	
Other	19	24.4	114	63	273	420	1,019	10.4	

a. 1966-67 value converted at the rate of 60 pesetas to US \$1; 1968-71 data converted at 70 pesetas to US \$1. Because of rounding, components may not add to the totals shown.

b. Estimated.

Table 6

Geographic Distribution of Spanish Footwear Exports^a

	1966		1967		1968	1969	1970	1971	
	Metric Tons	Per- cent	Metric Tons	Metric Tons	Metric Tons	Metric Tons	Metric Tons	Metric Tons	Per- cent
Total	4,849	100.0	8,047	14,381	21,692	23,184	38,173	100.0	
United States	2,692	55.5	4,779	9,381	13,395	14,416	23,047	60.4	
West Germany	444	9.2	463	645	1,101	1,184	3,648	9.6	
United Kingdom	605	12.5	839	1,275	1,580	1,671	2,369	6.2	
Canada	247	5.1	327	666	964	986	1,573	4.1	
Other	861	17.8	1,639	2,414	4,652	4,927	7,536	19.7	
Of which:									
Leather footwear	4,011	100.0	6,618	12,292	18,126	19,173	31,211	100.0	
United States	2,595	64.7	4,647	9,165	12,991	13,694	20,831	66.7	
West Germany	141	3.5	73	594	318	622	2,599	8.3	
United Kingdom	523	13.0	754	1,088	1,349	1,451	2,021	6.5	
Canada	240	6.0	219	542	922	946	1,501	4.8	
Other	512	12.8	925	903	2,546	2,460	4,259	13.6	
Synthetic footwear	64	100.0	128	160	433	923	2,293	100.0	
United States	39	60.9	29	95	228	496	1,536	67.0	
West Germany	7	10.9	3	18	....	8	239	10.4	
United Kingdom	2	3.1	....	4	27	57	152	6.6	
Canada	1	1.6	10	....	4	6	34	1.5	
Other	15	23.4	86	43	174	356	332	14.5	

a. Because of rounding, components may not add to the totals shown.

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APPENDIX C

BRAZIL'S FOOTWEAR INDUSTRY

Brazil's leather footwear industry entered the world market on a large scale in 1969, when domestic demand for shoes began to stagnate. The inroads that it made into the export markets of such established producers as Italy and Spain help to explain the 34% rise in its footwear output during 1969-71 (see Table 7). Natural cost advantages, government export promotion measures, and aggressive buying excursions by US importers pushed Brazilian shoe exports from \$241,000 in 1968 to \$29 million in 1971 and an expected \$60 million in 1972. In 1971, exports absorbed about 5% of the estimated shoe output of 92 million pairs.

Table 7

Brazil: Footwear Production

		<i>Million Pairs</i>		
	<i>Total</i>	<i>Women's and Misses' Footwear</i>	<i>Men's and Boys' Footwear</i>	<i>Children's and Miscellaneous Footwear</i>
1966	53 ^a	N.A.	N.A.	N.A.
1967	58.7	27.0	19.9	11.8
1968	68.9	30.2	21.9	16.8
1969	78.1	25.8	39.8	12.5
1970	82 ^a	N.A.	N.A.	N.A.
1971	92 ^a	N.A.	N.A.	N.A.

a. Estimated.

Brazil's shoe industry has the advantages of an adequate domestic source of raw materials and lower labor costs than some competitors. The leather industry has been developing rapidly, based on local output of bovine hides. In April 1972 the government prohibited raw hide exports to assure an adequate, low-cost domestic supply. At about \$1.00 to \$1.30 per hour, labor costs in the shoe industry are only about one-half those in Italy and roughly match those in Spain.

While given no special treatment, the industry benefits from Brazil's efforts to increase exports of manufactures. Shoe exporters are eligible for

a 12% credit on the manufactured products tax, partial reimbursement of the corporate income tax, exemption from state turnover taxes, and other benefits offered to manufacturers selling abroad. Moreover, Brazil's successful experiment with the crawling peg method of systematic currency devaluation has helped to keep export prices competitive despite rapid inflation. These factors - particularly systematic devaluation - have contributed to a 32% decline since 1969 in the average f.o.b. export price of a pair of shoes to \$2.10 at mid-1972.

Attracted by this largely untapped source of inexpensive, high-quality leather shoes, large US importers such as Genesco, Sumitran, and Atlas began visiting Brazil in 1968-69, and a few firms even established resident buyers. American companies provided the Brazilians with designs and molds, which they were able to adopt readily since their operations used mostly hand labor. Aggressive buying by US firms and lack of sales promotion by Brazilian firms in other markets has fostered heavy export dependence on the United States; the US market now takes almost 90% of Brazil's shoe exports (see Table 8). Virtually all of these are leather shoes. One-half are women's shoes, although Brazil is also making inroads into the US market for medium-priced men's shoes.

Table 8
Geographic Distribution of Brazilian Footwear Exports

	1966		1967		1968		1969		1970		1971 ^a	
	Thousand US \$	Per- cent	Thousand US \$	Thousand US \$	Thousand US \$	Thousand US \$	Thousand US \$	Per- cent	Thousand US \$	Per- cent	Thousand US \$	Per- cent
Total	130.9	100.0	235.6	240.7	1,563.8	7,925.2	100.0	29,000.0	100.0			
United States	112.0	85.6	207.4	199.9	1,343.5	6,938.4	87.5	25,000.0	86.2			
Other	18.9	14.4	28.2	40.8	220.3	986.8	12.5	4,000.0	13.8			
Of which:												
Leather footwear	126.3	100.0	221.0	233.2	1,493.9	7,766.7	100.0	N.A.	N.A.			
United States	112.0	88.7	207.4	199.9	1,343.5	6,892.4	88.7	N.A.	N.A.			
Canada	3.2	2.5	....	21.3	32.7	578.9	7.5	N.A.	N.A.			
United Kingdom	....	....	....	7.4	102.0	162.8	2.1	N.A.	N.A.			
West Germany	....	....	....	....	....	37.6	0.5	N.A.	N.A.			
Other	11.1	8.8	13.6	4.6	15.7	95.0	1.2	N.A.	N.A.			

a. Estimated.

Burgeoning exports have not yet changed the industry's character. Most of the 1,000-1,300 companies manufacturing shoes are small partnerships or proprietorships employing less than 50 workers. The companies typically

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specialize in either men's, women's, or children's shoes, with only a few larger ones offering a full line of footwear. The five largest firms have an average annual production of approximately 5 million pairs and account for more than one-fourth of total production and almost all export production. Most establishments, however, make only 5,000-7,000 pairs a year. Since the average export order is seldom under 10,000 pairs, compared with only 1,000 pairs for domestic orders, exports are encouraging establishment of larger plants.

The footwear industry employed some 50,000 workers in 1969 and is practically the only industrial employer in two of the three main shoe producing areas - Vale dos Sinos in the state of Rio Grande do Sul and Franca in the state of Sao Paulo. Almost three-fourths of total production is there. Vale dos Sinos is responsible for almost one-half of shoe exports. Novo Hamburgo, also in Rio Grande do Sul, is Brazil's largest shoe-manufacturing town. It is the center of the women's shoe industry and employs almost one-fifth of the industry's total labor force.

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APPENDIX D

JAPAN'S FOOTWEAR EXPORTS

Although Japan is still one of the world's leading exporters of synthetic shoes, its footwear exports are of minor and decreasing importance in its own foreign sales. The 60 million pairs of vinyl shoes sold abroad in 1971 -- mostly to the United States -- represented about one-third of the world total but less than 1% of the value of Japanese exports. Moreover, the growth of vinyl and other footwear exports slowed sharply in 1971. After rising close to 30% a year in the mid-1960s, exports went up only 1% in value last year (see Table 9). Volume actually declined about 5% from 1966 to 1971 (see Table 10).

Competition from lower cost producers such as Taiwan and South Korea accounts for much of the slowing of footwear exports. With their wage rates approximating \$1.00 per hour, compared with a mere \$0.20 per hour in Taiwan, Japanese producers are beginning to have trouble competing. Indeed, a number of Japanese manufacturers have set up shop in the lower cost countries of the Far East.

Leather shoe exports -- while never large -- have also fallen off since 1966 despite a 71% expansion in Japanese output. Growing domestic demand, reflecting a rising standard of living, has absorbed most of the output increase. Because leather shoe exports increasingly consist of high-priced items, the value of leather footwear exports grew an average of 11% annually during 1967-71 despite a sharp drop-off in volume.

Although Taiwan has recently cut into Japanese vinyl footwear sales in the United States, the US market is still Japan's largest, taking about three-fourths of the value of total footwear exports. Exports to Australia and West Germany have been growing much more rapidly than to the United States (more than 600% and 200%, respectively, since 1966), but these countries account for only 3% and 5%, respectively, of total Japanese footwear exports.

Table 9

Geographic Distribution of Japanese Footwear Exports, by Value^a

	1966		1967		1968		1969		1970		1971	
	Thousand US \$	Per- cent	Thousand US \$	Thousand US \$	Thousand US \$	Thousand US \$	Thousand US \$	Thousand US \$	Thousand US \$	Thousand US \$	Per- cent	
Total	53,697	100.0	68,085	84,167	95,286	104,154	105,310	100.0				
United States	34,019	63.4	45,601	58,335	67,543	74,553	76,704	72.8				
Canada	4,887	9.1	4,550	6,297	5,457	5,415	5,596	5.3				
West Germany	1,634	3.0	1,346	1,703	2,816	3,523	4,922	4.7				
Ryukyus	2,791	5.2	3,100	3,204	3,744	3,909	4,071	3.9				
Australia	436	0.8	950	923	1,203	1,706	3,248	3.1				
United Kingdom	2,947	5.5	2,331	2,149	2,067	1,842	2,710	2.6				
Other	6,983	13.0	10,207	11,556	12,456	13,206	8,059	7.7				
Of which:												
Leather footwear	4,721	100.0	5,431	6,055	7,893	10,275	8,129	100.0				
United States	1,484	31.4	1,180	1,565	2,286	4,301	5,192	63.9				
Canada	430	9.1	216	205	114	159	215	2.6				
West Germany	418	8.9	314	147	103	102	97	1.2				
Ryukyus	875	18.5	978	1,090	1,351	1,562	1,475	18.1				
Australia	6	0.1	16	5	13	7	39	0.5				
United Kingdom	172	3.6	158	109	21	15	13	0.2				
Other	1,336	28.3	2,569	2,934	4,005	4,129	1,098	13.5				
Synthetic footwear	29,778	100.0	41,672	52,738	63,952	69,087	78,503	100.0				
United States	21,191	71.2	29,948	39,198	49,583	53,401	60,758	77.4				
Canada	1,605	5.4	1,755	2,777	2,788	3,008	3,820	4.9				
West Germany	449	1.5	561	1,104	1,803	2,224	3,206	4.1				
Ryukyus	709	2.4	884	873	1,024	1,134	1,255	1.6				
Australia	23	0.1	347	379	621	1,181	2,881	3.7				
United Kingdom	1,216	4.1	1,769	1,728	1,506	1,365	1,904	2.4				
Other	4,585	15.4	6,408	6,679	6,627	6,774	4,679	6.0				

a. Because of rounding, components may not add to the totals shown.

Table 10

Geographic Distribution of Japanese Footwear Exports, by Quantity^a

	1966		1967		1968		1969		1970		1971	
	Thousand Pairs	Per- cent	Thousand Pairs	Thousand Pairs	Thousand Pairs	Thousand Pairs	Thousand Pairs	Thousand Pairs	Thousand Pairs	Per- cent		
Total	93,084	100.0	106,524	116,748	110,136	99,480	88,248	100.0				
United States	58,680	63.0	71,580	80,364	77,244	69,444	59,676	67.6				
Canada	10,440	11.2	9,204	11,196	8,568	6,696	6,864	7.8				
West Germany	3,276	3.5	3,036	3,408	4,260	4,992	6,828	7.7				
Ryukyu	2,832	3.0	2,736	2,592	2,712	2,436	2,256	2.6				
United Kingdom	4,056	4.4	2,844	2,904	2,328	1,872	2,628	3.0				
Australia	696	0.7	2,052	1,092	1,500	2,172	2,040	2.3				
Other	13,104	14.1	15,072	15,192	13,524	11,868	7,956	9.0				
Of which:												
Leather footwear	12,264	100.0	7,956	6,468	4,920	4,152	3,180	100.0				
United States	4,572	37.3	2,652	2,292	1,860	1,860	1,728	54.3				
Canada	2,088	17.0	948	792	408	204	96	3.0				
West Germany	1,572	12.8	1,236	564	288	300	300	9.4				
Ryukyu	288	2.3	288	312	348	360	324	10.2				
United Kingdom	396	3.2	372	264	48	48	12	0.4				
Australia	12	0.1	12	12	24	Negl.	108	3.4				
Other	3,336	27.2	2,448	2,232	1,944	1,380	612	19.2				
Synthetic footwear	46,416	100.0	60,996	70,320	71,988	64,848	59,076	100.0				
United States	32,544	70.1	43,500	50,220	53,964	47,820	44,220	74.9				
Canada	2,988	6.4	3,696	5,388	4,224	3,468	4,044	6.8				
West Germany	672	1.4	1,116	1,944	2,196	2,700	3,516	6.0				
Ryukyu	600	1.3	672	648	756	804	828	1.4				
United Kingdom	1,776	3.8	1,728	1,716	1,152	1,020	1,392	2.4				
Australia	48	0.1	384	408	708	1,440	1,584	2.7				
Other	7,788	16.8	9,900	9,996	8,988	7,596	3,492	5.9				

a. Because of rounding, components may not add to the totals shown.

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APPENDIX E

TAIWAN'S FOOTWEAR INDUSTRY

The Taiwanese footwear industry is undergoing rapid development. Production of leather footwear more than tripled between 1966 and 1971, reaching over 6 million pairs last year. Similarly, the output of canvas-topped shoes nearly quadrupled, to 24 million pairs, during the same period. Judging by the growth of the raw materials needed for vinyl footwear - a 600% increase in plastic leather substitutes and cloth production - production has been growing even more rapidly and now probably constitutes the bulk of shoe output.

Taiwan began exporting footwear in significant quantities in 1967. With a large cost advantage accruing from the \$0.20 per hour wages paid a plentiful labor force, sales abroad zoomed (see Table 11). In 1971 the value of footwear exports - 98% of which comes from vinyl sales - reached \$61.6 million, or nearly 11 times the 1967 value. While footwear accounted for only 1% of total exports in 1967, it rose to 2% in 1971. Taiwan sends an estimated 80% of total footwear exports to the United States and is now this market's leading foreign supplier of vinyl shoes.

Table 11

Taiwan: Footwear Exports

<u>Total</u>		<u>Of Which:</u>	
		<i>Leather Footwear</i>	<i>Synthetic Footwear</i>
1967			
Metric tons	5.8	Negl.	5.7
Thousand US \$	5,836	28	5,665
1968			
Metric Tons	7.0	Negl.	7.0
Thousand US \$	8,721	66	8,624
1969			
Metric tons	12.2	Negl.	12.1
Thousand US \$	17,133	49	17,034
1970			
Metric tons	21.1	Negl.	21.0
Thousand US \$	31,720	348	31,279
1971			
Metric Tons	38.3	0.3	37.9
Thousand US \$	61,420	922	59,972

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